

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**THE BUREAU OF AUTOMOTIVE REPAIR
COULD IMPROVE ITS ADMINISTRATION
OF THE SMOG CHECK PROGRAM**

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

P-464

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ITS ADMINISTRATION OF THE SMOG CHECK PROGRAM

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Auditor General

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Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the Bureau of Automotive Repair's administration of the Smog Check program. The report indicates a need for increased oversight of contractors, for more vehicles to meet the Smog Check program's standards, and for increased oversight of exemptions from the Smog Check program.

Respectfully submitted,

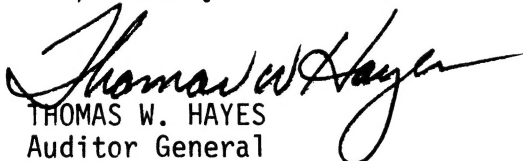

THOMAS W. HAYES
Auditor General

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SUMMARY

RESULTS IN BRIEF

The Bureau of Automotive Repair (bureau) is responsible for administering the State's Smog Check program, registering automotive repair dealers, and handling public complaints concerning them. The bureau is also responsible for licensing facilities to certify the proper functioning of motor vehicles' lamps, brakes, and pollution control systems. This report concentrates on the bureau's responsibilities for the Smog Check program, which accounts for 78 percent of the bureau's budget in fiscal year 1986-87.

While the bureau has taken steps to meet its statutory responsibilities for implementing and administering the Smog Check program, administrative improvements could increase the effectiveness of the program in reducing vehicle emissions. For example, the bureau should increase its oversight of contractors, ensure that more vehicles meet the program's standards, and increase its oversight of exemptions from the program.

PRINCIPAL FINDINGS

More Contract Monitoring Is Needed

The bureau has contracts totaling over \$16 million with two contractors to provide quality assurance for the State's Smog Check program. However, the bureau does not adequately monitor contractors to ensure that their management reports and payment claims accurately reflect work performed. As a result, the bureau has paid contractors over \$122,000 that is not justified by their management reports.

Too Many Vehicles
Do Not Meet Standards

Approximately 271,000 of the vehicles tested under the State's Smog Check program in fiscal year 1985-86 failed to meet the program's testing standards and received "cost-exceedance waivers" because the cost of repairs necessary for the vehicles to meet standards would exceed the current repair cost limit of \$50. Vehicles with waivers emit more air pollutants than vehicles that do not receive waivers. The bureau has not raised the \$50 repair cost limit since it implemented the program in March 1984, despite having the statutory authority to do so.

Invalid Exemptions From
State Requirements

In June and July 1986, more than 14,180 motorists exempted their vehicles from the requirements of the State's Smog Check program. At least 11 percent, or 1,553 of these exemptions were invalid or questionable. The bureau has done little to monitor exemptions, even though invalid exemptions result in missed opportunities to reduce vehicle emissions.

No Inventory Control System

As of September 1986, the bureau's headquarters had an inventory of program certificates valued at approximately \$45 million; however, the bureau's headquarters does not have a system to control its inventory. Consequently, the bureau does not know if any of its program certificates have been lost or stolen.

CORRECTIVE ACTION

During our audit, the bureau developed procedures to improve its administration of contracts and to improve its administrative controls over inventory at bureau headquarters.

RECOMMENDATIONS

The Bureau of Automotive Repair should take the following actions:

- Increase its oversight of its contractors;
- Increase the repair cost limit to the amount currently allowed by statute and propose legislation allowing the bureau more latitude to increase the cost limit;
- Increase its monitoring of exemptions from the State's Smog Check program; and
- Develop and implement an inventory control system for its supply of program certificates.

AGENCY COMMENTS

The State and Consumer Services Agency generally agrees with the report's findings. The agency explains that it is premature to take actions concerning the Smog Check program's repair cost limit until the public and the Legislature have had the opportunity to review a report by the Inspection and Maintenance Review Committee that also discusses the program's repair cost limit. The committee's report is due to the Legislature by March 1987.

INTRODUCTION

The Bureau of Automotive Repair (bureau), within the Department of Consumer Affairs (department), was established by the Automotive Repair Act in 1972 to register automobile repair dealers and handle public complaints concerning them and to license facilities and mechanics that repair the lamp, brake, and pollution control systems of motor vehicles. In 1983, through Chapter 892, Statutes of 1982, the department was made responsible for implementing and administering the State's vehicle inspection and maintenance program, commonly known as the Smog Check program. The department delegated its responsibilities for the State's Smog Check program to the bureau.

The bureau has 19 field offices throughout the State and 366 authorized positions. As of August 1986, the bureau had registered over 39,000 automobile repair dealers and had licensed over 5,000 "official" stations and over 30,000 official station mechanics to service and certify the lamp, brake, and pollution control systems of motor vehicles. Official stations may purchase from the bureau and sell to the public certificates that certify the proper functioning of vehicles' lamps, brakes, and pollution control systems.

The bureau administers the Smog Check program in cooperation with the Department of Motor Vehicles. This program operates in areas of the State, known as "nonattainment areas," where the levels of carbon monoxide or ozone in the air exceed federal standards. The Smog

Check program, which started in March 1984, is the State's response to requirements of the federal Clean Air Act, as amended in 1977. The Clean Air Act requires that periodic motor vehicle inspection and maintenance programs be implemented in urban areas that could not meet, by 1982, federal air quality standards for carbon monoxide or ozone. States that do not have an inspection and maintenance program, such as the Smog Check program, are subject to federal sanctions that include the withholding of federal monies for highway projects, clean air projects, and sewage treatment projects. In addition, through the Environmental Protection Agency (EPA), the federal government can ban construction that will create new sources of air pollution.

The Smog Check program requires that vehicles subject to the program be inspected at Smog Check stations licensed by the bureau. The bureau issues Smog Check station licenses to facilities requesting a license if they have the proper tools, equipment, and personnel for performing Smog Check tests and repairs. The bureau also trains and certifies Smog Check mechanics. As of August 1986, the bureau had licensed over 8,100 Smog Check stations and certified over 27,000 mechanics. For fiscal year 1986-87, the bureau has a budget of \$34.5 million, of which approximately \$27 million (78 percent) is for the Smog Check program.

Smog Check stations purchase certificates of compliance from the bureau, repair vehicles to reduce their emissions, and sell Smog Check certificates of compliance to motorists whose vehicles meet the

program's requirements. Between October 1984 and August 1986, Californians spent approximately \$323 million complying with the Smog Check program's requirements.

The Smog Check test consists of a visual inspection of a vehicle's emission control devices, a test of the vehicle's exhaust emissions of hydrocarbons and carbon monoxide, and, in some areas, a "functional" test of the components of the vehicle's emission control systems. During the visual inspection, Smog Check mechanics are required to ensure that a vehicle's emission control devices are properly installed. In testing a vehicle's exhaust emissions, Smog Check mechanics must use computerized test analyzers that are approved by the bureau. The test analyzers compare a vehicle's exhaust emissions with emission standards developed by the California Air Resources Board and determine if the vehicle meets the standards. According to the EPA, California's standards for vehicle emissions are among the most stringent in the nation. During the functional test, mechanics check selected components of a vehicle's emission control system to ensure they are functioning properly.

Between August 1984 and July 1986, approximately 9.2 million vehicles were tested under the Smog Check program's requirements. In fiscal year 1985-86, approximately 3.4 million (68 percent) of the vehicles tested under the Smog Check program passed the test the first time, while approximately 1.6 million (32 percent) failed their first test. Of those taking a second test, approximately 860,000

(76 percent) passed the test after repairs enabled the vehicles to meet the State's standards. Approximately 271,000 (24 percent) of the vehicles taking a second Smog Check test failed to meet the Smog Check program's standards and required repairs exceeding the program's \$50 repair cost limit; these vehicles were granted waivers from the standards and received certificates of compliance.

After motorists have their vehicles tested and repaired, they must submit their Smog Check program certificates of compliance to the Department of Motor Vehicles as part of their vehicle registration requirements. Motorists that do not submit Smog Check program certificates of compliance as required cannot register their motor vehicles and risk receiving citations from California peace officers if they drive their unregistered vehicles.

Chapter 892, Statutes of 1982, also required that the department contract with at least two private entities to administer the "quality assurance" component of the Smog Check program. This component of the program is to "ensure uniform and consistent tests and repairs by all qualified mechanics and licensed test stations and repair stations." The program must include enough "referee" stations to accommodate at least two percent of the vehicles subject to the Smog Check program. The purpose of referee stations is to give motorists the opportunity to receive an independent check and evaluation of their vehicles' compliance with the Smog Check program's standards.

Chapter 892 also created a review committee to analyze the effect of the Smog Check program on vehicle emissions and air quality. This committee is required to submit a report to the Legislature by March 1987 that quantifies the reductions in vehicle emissions and the improvement in air quality attributable to the Smog Check program.

Environmental Protection Agency Audit

The EPA's Air Management Division audited California's Smog Check program and issued its audit report in August 1986. The EPA's overall finding was that the State's Smog Check program is well designed in virtually all respects and is competently managed by the bureau. However, the EPA also concluded that the Smog Check program had some problems that, if corrected, would result in greater reductions in emissions. The two most significant weaknesses cited by the EPA were the Smog Check program's high waiver rate and the poor performance of Smog Check mechanics in performing the visual portion of the Smog Check test.

SCOPE AND METHODOLOGY

The purpose of our review was to evaluate the bureau's programs and activities. Although we found instances in which the bureau was not fully complying with statutes and regulations adopted to implement the Automotive Repair Act, we decided to focus our formal audit work and reporting primarily on the bureau's administration of

the Smog Check program for the following reasons: the effects of the bureau's lack of compliance with the Automotive Repair Act statutes and regulations were minimal or could not be documented; our survey work indicated potential problems in the bureau's administration of the Smog Check program; the Smog Check program is one of the bureau's newer programs; and the Smog Check program accounts for 78 percent of the bureau's budget in fiscal year 1986-87.

We reviewed three of the bureau's four "quality assurance" contracts, which account for 97 percent of the monies encumbered or paid for all quality assurance contracts and 48 percent of the monies encumbered or paid for all Smog Check program contracts. In fiscal year 1986-87, 32 percent of the bureau's budget is for contracts related to the Smog Check program. We reviewed the contractors' management reports, contractors' invoices, bureau payment records, and correspondence between the bureau and the contractors. We also reviewed statutes and regulations governing contract payments.

We reviewed the bureau's waiver rate statistics and the bureau's legal authority to increase the limit on repair costs. We also analyzed the cost of certain vehicle repairs that reduce vehicle emissions.

We reviewed statutes and regulations concerning exemptions, the bureau's procedures for monitoring exemptions, and the bureau's audits of motorists' exemption claims. To determine the percentage of

invalid exemption claims motorists submit, we randomly selected and reviewed a sample of 114 of an estimated 14,180 exemption claims submitted to the Department of Motor Vehicle's headquarters in June and July of 1986.

We reviewed the bureau's procedures for controlling inventory and for collecting and depositing revenue, and we reviewed statutes and regulations concerning administrative controls. We also reviewed samples of 35 of 233 sales transactions and 27 of 98 transfers of certificates that the bureau's headquarters made between April 1, 1986, and June 30, 1986.

AUDIT RESULTS

I

THE BUREAU OF AUTOMOTIVE REPAIR DOES NOT ADEQUATELY MONITOR ITS CONTRACTORS' PERFORMANCE

Although the Bureau of Automotive Repair (bureau) has contracts worth nearly \$33 million with various contractors to provide services related to the State's Smog Check program, it does little to monitor its contractors' performance before approving payments to them. For example, the bureau has routinely paid its two quality assurance contractors the amounts on their invoices; it has not determined that these amounts are justified by checking management reports, which specify the work accomplished by the contractors. As a result, of \$1.86 million the bureau paid its quality assurance contractors for costs directly related to inspections of Smog Check stations between March 1984 and June 1986, at least \$122,000 is not justified by the management reports submitted by the quality assurance contractors.

As of June 1, 1986, the bureau had eight contracts valued at approximately \$33 million for services related to the State's Smog Check program. Four of these contracts, totalling \$16.3 million, are with "quality assurance" contractors, who are required to make quarterly visits to licensed Smog Check stations to ensure that consumers' vehicles are receiving uniform and consistent tests and repairs by qualified mechanics. The quality assurance contractors are

also required to inform the bureau of any problems at Smog Check stations that require immediate corrective action and to submit to the bureau periodic management reports that summarize the contractors' activities during the period.

The bureau has awarded two quality assurance contracts to Engineering Sciences, Inc.--one contract covers the Fresno County Air Pollution Control District, and the other contract covers the Sacramento County Air Pollution Control District and the Bay Area Air Quality Management District. The Bay Area Air Quality Management District includes all or part of Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma counties.

The bureau has also awarded two contracts to Systems Control, Inc.--one contract covers the Ventura County Air Pollution Control District, the South Coast Air Quality Management District, and the San Diego County Air Pollution Control District. The South Coast Air Quality Management District includes all or part of Los Angeles, Orange, Riverside, and San Bernardino counties. Another contract covers the Kern County Air Pollution Control District. Each contract has a monthly payment schedule that is based upon the number of licensed stations that the quality assurance contractor should visit in carrying out its duties.*

*Systems Control, Inc., also has a contract for \$13 million to provide referee stations statewide.

To be assured that they receive what they pay for, state agencies should have and carry out procedures for monitoring contractors' performance. These procedures should include steps such as receiving and reviewing management reports submitted with the contractors' invoices; reconciling invoice amounts with the performance described on the management reports and with the performance required by the contracts; periodically reviewing source documents to validate the performance described on the management reports; adjusting payments stated on invoices to reflect verifiable performance; notifying contractors of deviations from expected performance; and ensuring that the contractors take corrective action.

The bureau does not follow any of these monitoring steps and has done little monitoring of its contractors' performance. Although the bureau receives from its quality assurance contractors monthly management reports that specify the number of inspections performed during each payment period, the bureau has not required that the contractors submit these reports with their monthly invoices. Contractors usually submit their invoices before they submit their monthly management reports, and the bureau has routinely approved contractors' payments for the amount of their invoices. The bureau started developing procedures for monitoring its contractors in October 1986.

We reviewed three contracts, which account for 97 percent of the \$16.3 million value of all the quality assurance contracts and

48 percent of the value of all Smog Check program contracts, for the period between March 1, 1984, and June 30, 1986. During this period, the bureau paid its contractors \$5.69 million for these three contracts. We limited our review to the \$1.86 million the bureau paid for field labor costs to inspect licensed Smog Check stations because there was too little cost information in the contracts and in the contractors' cost proposals to audit all payments.

Although the full \$1.86 million should have been substantiated by the contractors' management reports, at least \$122,000 (6.6 percent) was not substantiated by the management reports. The management reports showed that the contractors performed fewer inspections than the number their contracts required them to perform. For example, between October 1, 1984, and June 14, 1985, Engineering Sciences, Inc., claimed payment for inspecting more stations than were licensed in the Fresno County Air Pollution Control District; as a result, the bureau overpaid the contractor by approximately \$12,000. After we brought this overpayment to the attention of the bureau's contract administrator, the administrator notified Engineering Sciences, Inc., of this overpayment, the contractor agreed it was an overpayment, and the bureau has taken action to recover the \$12,000. In addition, Engineering Sciences, Inc.'s invoices for its contract covering the Fresno County Air Pollution Control District during three of four quarters between June 15, 1985, and June 14, 1986, claimed payment for the number of inspections it should have performed; however, its management reports indicated that it performed fewer than the required

number of inspections. In its contract for the Sacramento County Air Pollution Control District and the Bay Area Air Quality Management District, Engineering Sciences, Inc., claimed full payments in seven of ten quarters between March 19, 1984, and June 13, 1986, even though its management reports did not show that the contractor had performed all of its required inspections. In addition, in its contract for services in the South Coast Air Quality Management District, the Ventura County Air Pollution Control District, and the San Diego County Air Pollution Control District, Systems Control, Inc., claimed full payments that were not substantiated by its management reports in seven of the eight quarters between June 1, 1984, and June 30, 1986.

In addition to the \$122,000 in overpayments that we identified, the bureau's total payment of \$5.69 million to the quality assurance contractors includes other overpayments. However, we could not determine the specific amount of the overpayments because of limited cost information in the contracts and in the contractors' cost proposals.

The bureau's deputy chief for program services stated in August 1986 that he knew Engineering Sciences, Inc., was performing 80 to 90 percent of its required inspections in the Fresno County Air Pollution Control District. He also stated that, as long as a quality assurance contractor performs approximately 90 percent of its required inspections, he believes it is meeting its contractual obligations. The deputy chief said he believed that both Engineering Sciences, Inc.,

and Systems Control, Inc., were performing more than 90 percent of the quarterly inspections required by the other three quality assurance contracts. However, all three contracts we reviewed require the contractors to inspect 100 percent of the licensed Smog Check stations in the geographical areas covered by their contracts.

Because the bureau did not compare the contractors' management reports and invoices with the performance required of the contractors, it could not adjust the contractors' payments and formally notify the contractors to complete their required number of inspections. In addition, when contractors do not perform all of their required inspections, they cannot inform the bureau of all stations that are violating the Smog Check program's regulations. As a result, the bureau misses opportunities to require corrective actions at these stations and thus ensure that uniform and consistent tests and repairs are performed at all Smog Check stations.

CONCLUSION

The Bureau of Automotive Repair has not developed and carried out procedures for monitoring its contractors' performance and approving payments to them. These procedures would help ensure that the State gets what it pays for. Instead of following monitoring procedures and reviewing management reports before paying its quality assurance contractors, the bureau has routinely based its payments to these contractors

on the amount specified on the contractors' invoices. As a result, the bureau has authorized more than \$122,000 in payments than is justified by the quality assurance contractors' management reports. In addition, when contractors do not perform all of their required inspections, they cannot promptly inform the bureau of all stations that are violating Smog Check program regulations. The bureau is, therefore, prevented from requiring corrective action at these stations and ensuring that all Smog Check stations provide uniform and consistent tests and repairs.

The bureau has taken steps to recoup approximately \$12,000 in overpayments to Engineering Sciences, Inc.

RECOMMENDATIONS

To improve the monitoring of its contractors and to ensure that the State gets what it pays for, the Bureau of Automotive Repair should take the following actions:

- Develop and carry out all procedures necessary to monitor contractors' performance and to approve their payments; and
- Take immediate steps to recover all payments not justified by the quality assurance contractors.

II

THE BUREAU OF AUTOMOTIVE REPAIR WAIVES STANDARDS FOR TOO MANY VEHICLES

According to the bureau's statistics, approximately 1.6 million (32 percent) of the vehicles tested under the State's Smog Check program failed their initial Smog Check test in fiscal year 1985-86. Of the vehicles taking a second test, approximately 271,000 (24 percent) were granted "cost-exceedance waivers" (waivers), which allowed the vehicles' owners to receive Smog Check certificates of compliance even though the vehicles did not meet standards. Standards were waived for these vehicles because the required repairs would have cost more than the program's \$50 repair cost limit, which was established in 1984. The 24 percent rate is called the "waiver rate" and is significantly higher than the 10 percent waiver rate that the Environmental Protection Agency (EPA) considers tolerable. According to an environmental scientist in the EPA's Air Management Division, the EPA considers a 10 percent rate to be acceptable. Although the bureau has the authority to increase the repair cost limit to reflect changes in mechanics' wages and the cost of living, it has not done so, despite increases in the wage rates and in the cost of living. When vehicles are granted waivers, the effectiveness of the Smog Check program decreases because, by definition, vehicles for which standards have been waived have malfunctioning emission control systems or emit excessive exhaust emissions.

The Health and Safety Code, Section 44015, requires that certificates of compliance be issued to motorists whose vehicles do not meet Smog Check program standards when the cost of the needed repairs exceeds the limit set by the Department of Consumer Affairs (department). (The primary exception to the limit on repair costs applies to vehicles whose emission control systems have been tampered with, and components are either missing, modified, or disconnected. There is no cost limit to ensure that these vehicles have properly installed emission control systems.) The Legislature directed the department to initially set the repair cost limit at no more than \$50 but granted the department the authority to increase the cost limit to \$100, subject to limitations specified in the Health and Safety Code, Section 44017. According to a September 1986 Legislative Counsel opinion, Section 44017 authorizes the department to increase the repair cost limit only if an increase can be justified by increases in mechanics' wages and the cost of living since the Smog Check program began in 1984. The Health and Safety Code, Section 44017, specifies that the Consumer Price Index (CPI), published by the United States Bureau of Labor Statistics, is the basis for determining changes in the cost of living.

Most waivers are granted by licensed Smog Check stations, although referee stations also grant these waivers. Smog Check station mechanics can grant waivers only if they certify that they have made some repairs on a vehicle that failed the exhaust emissions portion of its initial test and have reduced the vehicle's emissions by at least

20 percent. They must also certify that the repair cost to reduce the vehicle's emissions to standards would exceed the department's limit. If a Smog Check mechanic cannot certify the 20 percent reduction in emissions and a vehicle cannot be repaired for \$50 or less, the Smog Check mechanic must refer the vehicle to a referee station. Referee stations grant waivers for vehicles that they determine cannot pass the Smog Check test without repairs that would exceed the repair cost limit.

In March 1986, the bureau reported to the Legislature that the Smog Check program's waiver rate was 19 percent. After that report, and because of an EPA recommendation, the bureau developed a new and more accurate method for calculating the waiver rate. Using this new method, the bureau recalculated the waiver rates for each quarter since September 1984 and found that the waiver rates have consistently exceeded 20 percent.

According to the manager of the bureau's Program Analysis and Evaluation Unit, the State's waiver rate is high because the current \$50 repair cost limit is too low and because mechanics do not always follow recommended repair procedures to achieve the maximum possible emission reductions. The EPA's August 1986 audit report on California's Smog Check program also concluded that the State's waiver rate is excessive and that one of the reasons for the high waiver rate is the current \$50 repair cost limit. Specifically, the EPA's report said that the \$50 repair cost limit "is too low to ensure a proper

repair effort on many vehicles" and that the repair cost limit should be raised to more accurately reflect automobile repair shop labor rates and changes in the CPI.

To more closely monitor the performance of Smog Check stations and mechanics and their compliance with the bureau's testing and repair procedures, the bureau has developed a "Station/Mechanic Evaluation Report." This report is a compilation of data collected by the computerized analyzers that mechanics use when performing Smog Check tests. The Station/Mechanic Evaluation reports are sent to the bureau's field offices, where they may be used by field staff to determine which stations and mechanics the bureau should investigate for compliance with the bureau's testing and repair procedures.

Despite the bureau's authority to raise the Smog Check program's repair cost limit, it has not done so since the program started in 1984. Moreover, the bureau did not start to evaluate the appropriateness of the current \$50 repair cost limit until August 1986, more than two years after the bureau implemented the Smog Check program. According to the manager of the bureau's Program Analysis and Evaluation Unit, the results of the bureau's review of the \$50 repair cost limit should be available in March 1987.

Any increases in mechanics' wage rates and the cost of living decrease the purchasing power of motorists whose vehicles need repairs to meet the Smog Check program's standards. Since 1984, mechanics'

wage rates have increased an average of \$5.78 per hour statewide. In addition, between February 1984 and September 1986, the cost of living as reflected by the CPI (averaged for three California cities) has increased 10.87 percent. Because of the increase in the cost of living alone, automotive repairs that cost approximately \$45 in 1984 cost \$50 today. This decrease in purchasing power means that fewer repairs to reduce vehicle emissions can be performed today under the \$50 repair cost limit than in 1984, decreasing the Smog Check program's effectiveness. We determined that raising the repair cost limit from \$50 to \$61 would reflect increases in mechanics' wage rates and the CPI since 1984.

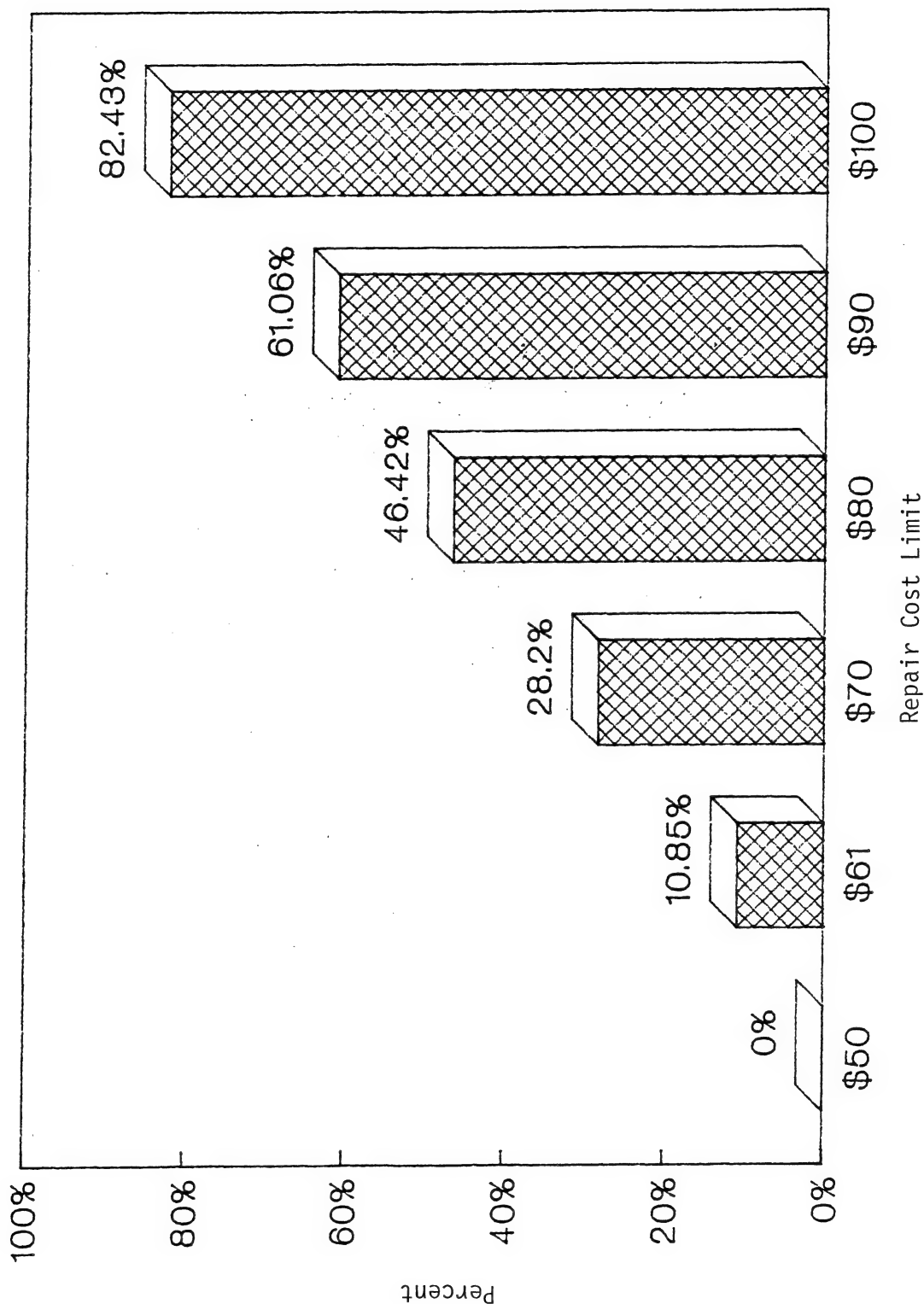
Basing our estimates on the average costs of automobile parts and labor, we used the bureau's procedures and documents to analyze repair costs for vehicles that could be repaired for minor tune-up problems or for defective exhaust gas recirculation (EGR) valves.* These vehicles included most automobiles made by Dodge, Ford, Chevrolet, Nissan, Toyota, and Volkswagen between 1974 and 1986. We found that a \$61 repair cost limit would increase by 10.9 percent the number of vehicles that could be repaired for these problems, and, as a result, would reduce vehicle emissions.

*These are two of the three leading problems for which the bureau waives Smog Check requirements because the repairs exceed the \$50 limit. The leading problem for which standards are waived is a faulty carburetion or fuel injection system. However, according to data compiled by the bureau, the cost to correct these malfunctions is well above the \$100 cost repair limit allowed by Chapter 892, Statutes of 1982.

We also analyzed the benefits, at each \$10 increment, of increasing the repair cost limit up to \$100, the maximum amount to which the bureau has the statutory authority to raise the repair cost limit. As shown by Chart 1, each \$10 increase in the repair cost limit substantially increases the number of vehicles that can be repaired for problems related to tune-ups or defective EGR valves. For example, more than four times as many of the vehicles in our sample could be repaired at an \$80 repair cost limit than could be repaired at a \$61 limit. Further, almost eight times as many of the vehicles in our sample could be repaired at a \$100 repair cost limit as could be repaired at a \$61 limit. With the current \$50 repair cost limit, none of the vehicles in our sample could be repaired to meet the standards of the Smog Check program.

CHART 1

PERCENT OF VEHICLES IN OUR SAMPLE THAT COULD BE REPAIRED AT DIFFERENT REPAIR COST LIMITS*



*Repairs include minor tune-ups and the replacement of EGR valves on most automobiles made by Dodge, Ford, Chevrolet, Nissan, Toyota, and Volkswagen between 1974 and 1986.

CONCLUSION

The Bureau of Automotive Repair is waiving the standards of the Smog Check program for too many vehicles. The Smog Check program's waiver rate of 24 percent is almost two and one-half times the Environmental Protection Agency's acceptable rate of 10 percent. Vehicles with Smog Check program waivers emit more air pollutants than those without waivers. Although the Health and Safety Code requires the bureau to waive the Smog Check program's standards for vehicles that cannot meet the standards without repairs that cost more than \$50, since 1984 the bureau has not exercised its authority to raise the repair cost limit, despite increases in the wage rates of automobile mechanics and in the cost of living. While an increase to \$61 is allowable, our analysis showed that, if the limit were higher, the bureau could require many more vehicles to be repaired instead of granting them waivers.

RECOMMENDATIONS

To increase the number of vehicles that can be repaired within the repair cost limit of the Smog Check program and to further reduce vehicles' exhaust emissions, the Bureau of Automotive Repair should take the following actions:

- Immediately raise the Smog Check program's repair cost limit to \$61; and
- Propose legislation allowing the bureau more latitude to increase the repair cost limit. The bureau should request the authority to base increases in the repair cost limit not only on increases in mechanics' wages and the cost of living but also on other factors, such as the percentage of vehicles that can be repaired at increased repair cost limits.

III

THE BUREAU OF AUTOMOTIVE REPAIR IS NOT ENFORCING THE EXEMPTION REQUIREMENTS OF THE SMOG CHECK PROGRAM

California motorists may certify that their vehicles are exempt from the Smog Check program's requirements under specified conditions. However, the bureau has done little to monitor the exemptions or to enforce the exemption requirements specified in state law. At least 1,553 (11 percent) of the 14,180 exemption claims that motorists submitted to the Department of Motor Vehicles (DMV) Headquarters in June and July of 1986 were invalid. Vehicles that receive invalid exemptions do not undergo Smog Check program testing and thus avoid repairs that may be required to reduce vehicle emissions.

Section 44011 of the Health and Safety Code and Section 3340.5, Title 16, of the California Administrative Code specify certain vehicles that are exempt from the requirements of the Smog Check program. These include vehicles that are more than 20 years old, vehicles principally garaged in areas not subject to the Smog Check program, vehicles powered by diesel engines, and vehicles with a gross weight of more than 8,500 pounds. The bureau is responsible for enforcing these statutory exemption requirements.

Motorists may claim that their vehicles are exempt from the Smog Check program's requirements when they register their vehicles with the DMV. The DMV's vehicle registration renewal form informs motorists that if they claim an exemption for their vehicle, they must certify the exemption under penalty of perjury and are subject to legal action if they violate provisions of the Smog Check program. According to a manager in the Technical Analysis and Special Project Unit at the DMV, the DMV may deny future vehicle registrations to motorists who submit invalid exemption claims.

Motorists may claim an exemption by completing the exemption portion of their vehicle registration renewal form and mailing it to DMV headquarters in Sacramento or by turning the form in to one of the DMV's field offices. The bureau has a contract with the DMV that requires the DMV to send the exemption claims it receives to the bureau.

The bureau's procedures for verifying exemption claims state that the exemption process has a great potential for abuse by motorists. However, the bureau has done little to determine if motorists are abusing the exemption process. For example, the bureau has not required the DMV to send to the bureau all the exemption claims that the DMV processes, even though the DMV is required to do so by a contract between the DMV and the bureau. The bureau obtains only those exemption claims that motorists send to the DMV headquarters in Sacramento because the DMV destroys the exemption claims submitted to

its field offices. In addition, the bureau does not know how many motorists are claiming exemptions from Smog Check program requirements because the DMV does not provide the bureau with any data on the number of exemption claims filed at the DMV's field offices.

Further, the bureau has not determined an accurate estimate of the number of motorists who submit invalid exemption claims to the DMV headquarters. Although the bureau has developed procedures for reviewing motorists' exemption claims, the procedures do not ensure that the bureau thoroughly reviews a random sample of exemption claims or accurately estimates how many motorists are submitting invalid claims. Moreover, the bureau has not always followed up on the exemption claims it found questionable in the three audits of exemption claims that it has conducted. Furthermore, the bureau has never asked the DMV to deny vehicle registrations to motorists who submitted invalid exemptions, even though the bureau has identified invalid claims during its audits.

The manager of the bureau's Program Analysis and Evaluation Unit agreed that random sampling of exemption claims would be better than the sampling procedures that the bureau used in its three audits. The manager also told us that the bureau has not always followed up on questionable exemption claims it identified because of a lack of staff time and because the bureau has not yet determined the procedures to use when notifying the DMV of invalid exemptions.

To determine if, as a result of the bureau's lack of monitoring and enforcement, motorists have circumvented the Smog Check program's requirements, we reviewed a random sample of 114 exemption claims sent to the DMV's headquarters in June and July 1986. We determined the validity of the claims in our sample by using methods and documents available to staff at the bureau's headquarters. For example, to determine the validity of motorists' claims that their vehicles weighed more than 8,500 pounds, we used a vehicle identification manual that lists vehicle weights by vehicle identification numbers. We also used this manual to check motorists' claims that their vehicles used a fuel other than gasoline. In all instances in which we could not conclusively determine the validity of motorists' exemption claims, we sent motorists certified letters requesting documents supporting their exemption claims.

In June and July 1986, exemption claims submitted to the DMV's headquarters accounted for at least 14,180 (3.2 percent) of the 443,662 vehicle registration renewal forms the DMV's headquarters accepted. Based on our sample, we project with 95 percent confidence that at least 1,553 (11 percent) of all exemption claims submitted to the DMV's headquarters in these months were either invalid or questionable. Assuming that some of the claims submitted to the DMV's field offices were also invalid, we conclude that the total number of invalid exemption claims in June and July 1986 was actually greater than 1,553.

When motorists claim invalid exemptions for their vehicles, the effectiveness of the Smog Check program is decreased because these vehicles are not tested under the Smog Check program's standards and thus avoid repairs that may be required to reduce vehicle emissions.

CONCLUSION

The Bureau of Automotive Repair is not enforcing the exemption requirements of the Smog Check program and does not know how many motorists are claiming exemptions or how many of the claimed exemptions are invalid. Further, the bureau has never requested that the DMV deny vehicle registrations to motorists who submit invalid exemption claims when these motorists are identified. We project that, in June and July of 1986, more than 14,180 motorists submitted claims for exemption from the Smog Check program to the Department of Motor Vehicles' headquarters, and that at least 1,553 (11 percent) of these exemptions were invalid. Motorists who submit invalid exemption claims do not submit their vehicles to the Smog Check program's testing and repair requirements and decrease the effectiveness of the program in reducing vehicle emissions.

RECOMMENDATIONS

To minimize abuse by motorists of the Smog Check program's exemption process and to improve the program's effectiveness, the Bureau of Automotive Repair should take the following actions:

- Obtain all exemption claims that motorists submit to the DMV, including those submitted to the DMV's field offices, and thoroughly review a random sample of the claims periodically. Request Smog Check program certificates of compliance from motorists who submitted invalid claims;
- Establish procedures for notifying the DMV of invalid exemptions, and provide the DMV with the names of motorists who have submitted invalid exemption claims and have not submitted Smog Check program certificates of compliance to the bureau. Request that the DMV deny future vehicle registrations to these motorists until they comply with the requirements of the Smog Check program.

IV

THE BUREAU OF AUTOMOTIVE REPAIR'S HEADQUARTERS HAS WEAK CONTROLS OVER ITS INVENTORY AND DEPOSITS

State law requires agencies to provide adequate controls over their assets. However, the bureau's headquarters does not have effective control over its \$45 million inventory of program certificates or its deposits of revenue. As a result of these conditions, the bureau does not know if any certificates have been lost or stolen, and the bureau's headquarters lost an estimated \$2,700 in interest income in fiscal year 1985-86.

Weak Inventory Controls

The bureau sells books of program certificates to its licensed stations for resale to the public. These certificates include lamp certificates, brake certificates, motor vehicle pollution control certificates, and Smog Check program certificates of compliance. In fiscal year 1985-86, the bureau collected \$39 million in revenue from certificate sales.

Section 13403 of the Government Code requires state agencies to have effective systems of internal accounting and administrative control over their assets. The bureau's accounting manual for its field offices includes procedures that comply with the requirements of

Section 13403. For example, the bureau's accounting manual specifies that field offices are to maintain a bulk supply of program certificates and a daily supply of program certificates, thereby assuring two levels of control over certificates. In addition, the bureau's accounting manual specifies that the daily supply of certificates at field offices be reconciled daily and that the bulk supply of certificates be counted and reconciled to the field office's recorded inventory level at least once every quarter. An inventory reconciliation requires that any significant discrepancies between an inventory count and a recorded inventory level be resolved to determine the reasons for the discrepancy.

We tested the procedures to control inventory at three of the bureau's field offices and found that they were generally effective. We found no material discrepancies between the recorded and the actual inventory of program certificates at any of the three field offices.

However, the bureau does not have a control system at its headquarters for its inventory of program certificates, which, in September 1986, was valued at approximately \$45 million. The headquarters' inventory is stored at a Department of General Services warehouse and in the mailroom at the bureau's headquarters. The bureau stores a bulk supply of certificates in a locked vault in its mailroom, and it keeps a supply of certificates for sale or transfer to field offices in an unsecured area of the mailroom. No one at the bureau's headquarters keeps any records documenting inventory levels at either

of the locations where the headquarters' inventory of certificates is stored, even though the bureau's policy and procedures manual states that headquarters is required to keep a running inventory log of each kind of certificate. Without inventory records, the bureau cannot determine if any program certificates have been lost or stolen.

The bureau's internal auditor counted the headquarters' inventory in September 1986. Before this count, no one at the bureau's headquarters had counted its inventory of program certificates since at least early 1985, despite the bureau's requirement that field offices count and reconcile their inventories at least once every quarter. Further, the bureau's internal auditor could not find the results of the 1985 inventory count.

After counting the inventory in September 1986, bureau staff recorded the headquarters' inventory levels in the bureau's computer system. Before September 1986, the bureau's computer system was not used to record headquarters' inventory levels. However, according to the manager of the bureau's electronic data processing unit, the bureau's computer system could have been used to record headquarters' inventory levels in early 1986.

We also counted the headquarters' inventory of program certificates and found no material discrepancies between our count and the count done by the bureau's internal auditor in September 1986. In addition, for a sample of certificates, we matched transaction data on

sales to licensed stations and on transfers to field offices with the headquarters' shipping transmittal documents for April 1, 1986, to June 30, 1986. We found no material discrepancies in the sales data. However, we could verify only 11 of the 27 transfer transactions in our sample because the bureau does not always fill out shipping transmittal documents for transfers of certificates to field offices. We did not review shipments of certificates the bureau ordered from its printer or shipments of certificates returned to the bureau's headquarters from its field offices because the bureau did not have adequate records that we could verify. The lack of accurate recordkeeping and the lack of routine counting and reconciling of the headquarters' inventory make it difficult to determine whether any certificates have been lost or stolen from the headquarters' inventory since it was last reconciled.

During our audit, the bureau took steps to improve controls over its supply of certificates at its headquarters mailroom. For example, the bureau is now using logs to record increases and decreases in its supply of certificates.

Weak Controls Over Deposits of Collections

The bureau's headquarters receives revenue from a number of sources, including registrations of automobile repair dealers, sales of licenses for official stations and Smog Check stations, sales of mechanic licenses and certificates, and sales of program certificates.

According to the manager of the bureau's Management Services Unit, the bureau's headquarters collected approximately \$6 million in revenues in fiscal year 1985-86.

When the bureau's headquarters receives revenues, its staff record pertinent data on logs that are then used to prepare reports of collections, which show the total revenue from all sources at the bureau's headquarters. The bureau's headquarters sends its reports of collections and all revenues it collects to the Department of Consumer Affairs (department), and, according to a cashier at the department, the department deposits the revenues in a bank approved as a depository for state monies.

Section 8030.1 of the State Administrative Manual (SAM) requires that state agencies deposit their collections when they total \$5,000, even if they have to make daily deposits of collections. The intent of Section 8030.1 is to maximize agencies' interest earnings. In 1985, the department's internal auditor notified the chief of the bureau that the bureau's headquarters was not complying with Section 8030.1 of the SAM. The bureau's chief informed the department by memorandum that the bureau's headquarters would comply with the SAM, Section 8030.1, and begin forwarding its collections to the department when they total \$5,000.

We reviewed all of the June 1986 revenue collections of the bureau's headquarters and its field offices and determined that the field offices were complying with the SAM, Section 8030.1, but the bureau's headquarters was not. The bureau's headquarters collected over \$500,000 in June 1986; daily collections averaged \$24,000 and were as high as \$53,600. Although collections exceeded \$5,000 on 19 of the 21 working days in June 1986, the bureau's headquarters prepared reports of collections and sent its collections to the department only 8 times that month. Because of the headquarters' delay in sending its collections to the department, the bureau lost approximately \$200 in interest income in June 1986 and an estimated \$2,700 in fiscal year 1985-86.

The bureau's headquarters has not been complying with the SAM, Section 8030.1, because it has not developed procedures for its accounting clerks to follow when preparing reports of collections. In addition, supervisors do not always review the accounting clerks' reports of collections.

Since we began our audit, the bureau has instructed its headquarters' cashiering unit to send the headquarters' collections to the department when they total \$5,000. We verified that the bureau's headquarters is now complying with the SAM, Section 8030.1.

CONCLUSION

The Bureau of Automotive Repair has effective systems for inventory control and depositing collected revenues at its field offices but not at its headquarters. The bureau's headquarters does not have an inventory control system for its inventory of program certificates, even though this inventory had a value of approximately \$45 million in September 1986. As a result, the bureau's headquarters does not know if any of its inventory of program certificates has been lost or stolen. In addition, the bureau's headquarters does not promptly send its revenues to the Department of Consumer Affairs for depositing in accordance with the provisions of the State Administrative Manual. Since the bureau is not promptly sending its collected revenues to the department, it is not maximizing its interest income. During our audit, the bureau's headquarters started depositing its collected revenues when they total \$5,000 and instituted some procedures at its headquarters to improve its control over its inventory of program certificates.

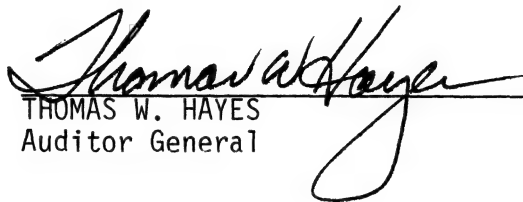
RECOMMENDATIONS

To ensure the security of its headquarters' assets and to maximize its interest income, the Bureau of Automotive Repair should take the following actions:

- Continue using the inventory control logs it developed;
- Ensure that changes in the headquarters' inventory level are promptly and accurately entered into the bureau's computer system;
- Compare and reconcile the inventory levels recorded by the headquarters with physical inventory levels at least once every quarter; and
- Develop and ensure that accounting clerks at the headquarters comply with written procedures when sending revenues to the department for deposit. These procedures should require the accounting clerks at the headquarters to send revenues to the department on the same day in which they total \$5,000.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: March 9, 1987

Staff: Samuel D. Cochran, Audit Manager
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State and Consumer Services Agency

OFFICE OF THE SECRETARY
915 Capitol Mall, Suite 200
Sacramento, CA 95814

March 2, 1987

Mr. Thomas W. Hayes, Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

Thank you for sending me a copy of your report No. P-464, "The Bureau of Automotive Repair Could Improve Its Administration of the SMog Check Program," for review and comment.

In 1984, the Bureau successfully implemented the largest inspection and maintenance (I/M) program in the world. Although the program is successful, we agree opportunities are available for program improvement.

Your audit is the third major evaluation of the program performed by an outside agency. The Environmental Protection Agency and the California Review Committee agree that the program is successful in reducing emissions to the level required by law, yet both believe there are various program enhancements that could be made.

I have asked the staff of the Department of Consumer Affairs and the Bureau of Automotive Repair (BAR) to review the report. The following comments on each recommendation are based upon their input:

RECOMMENDATION 1

To improve the monitoring of its contractors and to ensure that the State gets what it pays for, the Bureau of Automotive Report should take the following actions:

- Develop and carryout all procedures necessary to monitor contractors' performance and to approve their payments; and
- Take immediate steps to recover all payments not justified by the quality assurance contractors.

DEPARTMENTS AND PROGRAMS OF THE AGENCY

Building Standards Commission • Consumer Affairs • Fair Employment & Housing • Fire Marshal
Franchise Tax Board • General Services • Museum of Science & Industry • Personnel Board
Public Employees' Retirement System • Teachers' Retirement System • Veterans Affairs

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The bureau concurs that setting forth performance criteria is necessary for monitoring contractors and making payments on contracts. The bureau has established a contract administrator position. This administrator has notified the quality assurance contractors that the bureau will soon amend the contracts to clarify the method of payment (based upon performance). The administrator will assure that all current and future contracts are monitored and that contractors are paid according to the level of work performed.

In addition, legal advice will be sought to determine whether the bureau has grounds to pursue the \$122,000 that you identified as a potential overpayment. If appropriate, the bureau will take immediate steps to recover the money.

RECOMMENDATION 2

To increase the number of vehicles that can be repaired within the repair cost limit of the Smog Check Program, and to further reduce vehicles' exhaust emissions, the Bureau of Automotive Repair should take the following actions:

- Immediately raise the Smog Check Program's repair cost limit to \$61; and
- Propose legislation allowing the bureau more latitude to increase the repair cost limit. The bureau should request the authority to base increases in the repair cost limit not only on increases in mechanics' wages and the cost of living but also on other factors, such as the percentage of vehicles that can be repaired at increased repair cost limits.

The bureau feels it is premature to raise the \$50 repair cost limit to \$61 because the I/M Review Committee has not issued its report to the Legislature on the Committee's evaluation of the Smog Check Program. The draft report, scheduled for a public hearing to be held March 5, 1987, recommends, as a long-term improvement, four repair cost limits (based upon year of vehicle and emission control system). Decisions on how the limit should be set will be deferred until the public and the Legislature have had a chance to review the study.

RECOMMENDATION 3

To minimize abuse by motorists of the Smog Check Program's exemption process and to improve the program's effectiveness, the Bureau of Automotive Repair should take the following actions:

- Obtain all exemption claims that motorists submit to the DMV, including those submitted to the DMV's field offices:

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- Periodically select and thoroughly review a random sample of all exemption claims;
- Follow-up on exemption claims by obtaining Smog Check Program certificates of compliance from motorists who submitted invalid claims;
- Establish procedures for notifying the DMV of invalid exemptions; and
- Provide the DMV with the names of motorists who have submitted invalid exemption claims and have not submitted Smog Check Program certificates of compliance to the bureau, and request that the DMV deny future vehicle registrations to these motorists until they comply with the requirements of the Smog Check Program.

Although the self-exemption compliance problem represents only 0.3 percent of the Smog Check vehicle population, self-exemption could become an increasing means to avoid program compliance. Under current DMV procedures in the field offices, it is difficult to obtain self-exemption claims separate from all other renewal notices. The bureau has requested one month's worth of the field renewal notices to determine the quantity of self-exemptions and number of invalid claims. In addition, BAR is examining the possibility of obtaining field self-exemption claims on a monthly basis which may require various changes at DMV. A determination of the cost/benefit of obtaining the field exemptions on a monthly basis should be complete by the end of the year. Staff has been allocated to conduct periodic reviews of DMV headquarter's self-exemptions. This review will begin in March 1987.

In renewed cooperation efforts with DMV, staff will redraft the initial and follow-up letters sent to motorists with questionable claims. Follow-up will be made in all cases. Procedures for follow-up with motorists and DMV will be reviewed by legal staffs in both departments which will include a plan for DMV to be notified when invalid claims are verified. DMV will determine what enforcement action is appropriate and will notify the motorist. These new procedures should be in place within a year.

RECOMMENDATION 4

To ensure the security of its headquarters' assets and to maximize its interest income earnings, the Bureau of Automotive Repair should take the following actions:

- Continue using the inventory control logs it developed;
- Ensure that changes in the headquarters' inventory level are promptly and accurately entered into the bureau's computer system;
- Compare and reconcile recorded headquarters' inventory levels with physical inventory levels at least once every quarter; and

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- Develop and ensure that accounting clerks at the headquarters comply with written procedures when sending revenues to the department for deposit. These procedures should require the accounting clerks at the headquarters to send revenues to the department on the same day in which they total \$5,000.

As acknowledged by the Auditor in the section on Inventory and Deposits of Collections, BAR has developed inventory logs for Smog Check Certificates. These logs will be used on an ongoing basis. Procedures are in place to promptly enter inventory data on the computer and recently implemented quarterly reports will assure accuracy.

As acknowledged by the Auditor in the section on Deposits of Collections, BAR does require same-day deposits of revenues totalling \$5,000. Accounting clerks at headquarters are now complying with all requirements and we are evaluating additional procedures which will ensure that funds are deposited on a more regular basis.

I would like to thank you for the opportunity to comment. We found your report to be constructive.

Most cordially,



SHIRLEY R. CHILTON
Secretary of the Agency

cc: Marie Shibuya-Snell
Director, Department of consumer Affairs

Marty Dyer
Chief, Bureau of Automotive Repair

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps